

THE OFFICE OF REGULATORY STAFF

**DIRECT TESTIMONY
& EXHIBITS**

OF

DANIEL F. SULLIVAN

APRIL 27, 2018



DOCKET NO. 2016-384-S

Application of Moore Sewer, Incorporated
for Adjustment of Rates and Charges
and Modification to Certain Terms and Conditions
for the Provision of Collection-Only Sewer Service

DIRECT TESTIMONY AND EXHIBITS OF
DANIEL F. SULLIVAN
ON BEHALF OF
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2016-384-S

IN RE: APPLICATION OF MOORE SEWER, INCORPORATED FOR ADJUSTMENT
OF RATES AND CHARGES AND MODIFICATION TO CERTAIN TERMS AND
CONDITIONS FOR THE PROVISION OF COLLECTION-ONLY SEWER SERVICE

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Daniel F. Sullivan. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as the Deputy Director of the Audit Department.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration with a major in Accounting from the University of South Carolina in December 1998. From February 1999 to February 2005, I was employed as an auditor with the South Carolina Auditor's Office. In that capacity, I performed audits and reviews of cost reports filed by institutional providers of Medicaid services for the South Carolina Department of Health and Human Services. The primary purpose of these audits and reviews was to establish the applicable reimbursement rates to be paid to Medicaid providers for services rendered to qualified Medicaid patients. In February 2005, I began my employment with ORS and since then

1 have been involved in cases dealing with the regulation of telecommunication, gas, electric,
2 water and wastewater companies.

3 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE**
4 **COMMISSION OF SOUTH CAROLINA?**

5 **A.** Yes.

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

7 **A.** The purpose of my testimony is to set forth my findings and recommendations
8 resulting from ORS's examination of the application of Moore Sewer, Inc. ("Moore Sewer"
9 or "Company") in this docket, 2016-384-S. The application was filed on December 20,
10 2017.

11 **Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE**
12 **EXAMINATION OF THE APPLICATION OF MOORE SEWER.**

13 **A.** ORS's examination of the Company's application consisted of three major steps.
14 In step one, ORS attempted to verify that the operating experience, reported by Moore
15 Sewer in its application, was supported by Moore Sewer's accounting books and records
16 for the twelve months ending December 31, 2016 ("test year"). In the second step, ORS
17 tested the underlying transactions in the books and records for the test year to ensure that
18 the transactions were adequately supported, had a stated business purpose, were allowable
19 for ratemaking purposes, and were properly recorded. Lastly, ORS's examination consisted
20 of adjusting, as necessary, the revenues and expenditures to normalize the Company's
21 operating experience and operating margin, in accordance with generally accepted
22 regulatory principles and prior Public Service Commission of South Carolina ("PSC")
23 orders.

Q. PLEASE IDENTIFY ANY ISSUES ORS ENCOUNTERED WHILE ATTEMPTING TO VERIFY THAT THE OPERATING EXPERIENCE REPORTED BY MOORE SEWER IN ITS APPLICATION WAS SUPPORTED BY MOORE SEWER'S BOOKS AND RECORDS FOR THE TEST YEAR.

A. While verifying the amounts in the Company's application to the Company's books and records, ORS noted a few inconsistencies. First, the Company's books and records supported test year revenues of \$154,105 while the Company reported \$115,258 in revenues in its application. There was also a \$27 license fee expense that was included in the Company's books and records but not in the application. Test year bad debt expense of \$6,021 was reported in the Company's application, but was not recorded in the Company's books and records. ORS's accounting and proforma adjustments account for the correction and normalization of each of these test year amounts.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my testimony relating to the application:

- Audit Exhibit DFS-1: Operating Experience, Operating Margin and Rate Base for Wastewater Operations
- Audit Exhibit DFS-2: Explanation of Accounting and Pro Forma Adjustments
- Audit Exhibit DFS-3: Computation of Depreciation and Amortization Expense
- Audit Exhibit DFS-4: Computation of Income Taxes
- Audit Exhibit DFS-5: Computation of Cash Working Capital
- Audit Exhibit DFS-6: Computation of Interest Expense

- Audit Exhibit DFS-7: Operating Experience, Operating Margin and Rate Base at ORS Proposed Rates for Wastewater Operations

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for wastewater utility rate cases. These exhibits show various aspects of Moore Sewer's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT DFS-1 AND ELABORATE ON THE CALCULATIONS.

A. Audit Exhibit DFS-1 details Moore Sewer's operating experience and operating margin for wastewater operations for the test year. The exhibit's format is designed to reflect the Company's application amounts, ORS's proposed accounting and pro forma adjustments necessary to normalize the results of the Company's test year operations, and calculate the impact of the Company's proposed increase on the normalized test year.

Column (1) details the application amounts reported by Moore Sewer for the test year including total operating revenue of \$115,258, total expenses of \$163,135 and net loss for margin of (\$47,877). The application operating margin of -41.54% was calculated by dividing net loss for margin by total operating revenues.

Column (2) details ORS's proposed accounting and pro forma adjustments designed to normalize Moore Sewer's per application amounts. An explanation of each adjustment is contained in Audit Exhibit DFS-2.

Column (3) details ORS's calculation of a normalized test year for Moore Sewer by adding columns (1) and (2). After the accounting and pro forma adjustments, net income for margin

of \$212 was computed using total operating revenues of \$145,386, less total expenses of \$145,177 and adding customer growth of \$3. An operating margin of 0.15% was computed by dividing net income for margin by total operating revenues.

Column (4) reflects the Company's proposed increase and taxes associated with the Company's proposed increase. An explanation of each adjustment is contained in Audit Exhibit DFS-2.

Column (5) details the effect of the Company's proposed increase by adding columns (3) and (4). Net income for margin of \$101,922 was computed using total operating revenues of \$282,062, less total expenses of \$181,661 and adding customer growth of \$1,521. An operating margin of 36.13% was computed by dividing net income for margin by total operating revenues.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT DFS-2.

A. For comparative purposes, ORS's and Moore Sewer's proposed adjustments are both presented in Audit Exhibit DFS-2.

Adjustment 1 – Wastewater Revenues – ORS's total operating revenue adjustment is \$30,128. This adjustment is comprised of the following operating revenue adjustments:

Adjustment 1A – Wastewater Revenues – The ORS Utility Rates Department proposes to annualize wastewater sales revenues for the test year. Details of the annualized wastewater revenues are reflected in the direct testimony and exhibits of ORS witness Anthony Sandonato. See Exhibit AMS-2.

Adjustment 1B – Amortization of Tax Collection Shortfall – ORS proposes an adjustment of (\$259) to the Company's revenue due to the Tax Cuts and Jobs Act. This adjustment reflects the five year amortization of the \$1,295 tax collection shortfall asset created by

1 ORS Adjustment 21. This adjustment is addressed in further detail in the testimony and
2 exhibits of ORS Utility Rates Department witness, Anthony Sandonato. See Exhibit AMS-
3 7.

4 Operating Expenses – ORS’s operating expense adjustments total (\$26,187). This amount
5 is comprised of the following adjustments:

6 Adjustment 2 – Materials & Supplies – ORS proposes an adjustment of (\$2,163) to reflect
7 the removal of nonallowable expenses and capitalized expenses from the Company’s
8 materials and supplies account. ORS removed \$276 of nonallowable expenses and
9 expenses incurred outside of the test year and \$1,887 of expenses capitalized per
10 recommendation of the ORS Utility Rates Department. The capitalized amounts have been
11 included in ORS’s calculation of depreciation expense as shown in Audit Exhibit DFS-3.

12 Adjustment 3 – Contract Services – Billing – ORS proposes an adjustment of (\$40,404) to
13 reflect the removal of test year expenses that were not adequately supported. The Company
14 submitted twelve monthly invoices including a \$3,367 charge for billing services. The
15 invoices did not detail the work performed by the vendor, Janet T, LLC. Janet T, LLC is
16 owned and operated by one of the owners of Moore Sewer, Janet Teichman.

17 Upon request for additional supporting documentation, the Company stated that there was
18 not a contract or detailed invoices supporting this expense for the test year. Since the
19 Company was unable to sufficiently support the test year billing expenses, ORS has
20 removed the test year billing amount of \$40,404.

21 Adjustment 4 – Contract Services – Professional – ORS proposes a (\$4,904) adjustment to
22 reflect the removal of legal costs. ORS proposes to remove \$1,368 of legal expenses related
23 to due diligence costs for the potential sale of Moore Sewer to another company as well as

1 \$3,536 of legal expenses that were included in the Company's proposed rate case expenses.

2 These rate case expenses are included in the calculation of ORS's adjustment #10.

3 Adjustment 5 – Contract Services – Other – ORS proposes an adjustment of (\$20,161) to
4 reflect the removal of capitalized expenses and test year expenses that were not adequately
5 supported. As part of this adjustment, ORS proposes to remove \$1,851 in collection fees
6 paid to a local convenience store for collecting customer payments on the Company's
7 behalf. Upon request for additional supporting documentation, the Company provided a
8 copy of a contract between Moore Sewer and the convenience store to support the
9 calculation of the collection fees. The contract was only signed by William Teichman, an
10 owner of Moore Sewer, but was not signed by the owner of the convenience store. Per
11 ORS's Legal Department, the contract was not a valid, executed contract because it was
12 lacking signatures from both parties. ORS has removed the test year amount of \$1,851
13 since the Company was unable to sufficiently support the test year collection fee expenses.
14 ORS's adjustment to Contract Services - Other also accounts for the removal of \$9,600 of
15 test year field work expenses that were not adequately supported. The Company submitted
16 twelve monthly invoices including an \$800 charge for field work services. The invoices
17 did not detail the work performed by the vendor, Janet T, LLC. Upon request for additional
18 supporting documentation, the Company stated that there was not a contract or detailed
19 invoices supporting this expense for the test year. ORS has removed the test year amount
20 of \$9,600 since the Company was unable to sufficiently support the test year field work
21 expenses.

22 This adjustment also reflects the removal of \$8,710 in expenses for work performed by the
23 Company's maintenance vendor, Operation Drains of the Upstate. These expenses were

capitalized per recommendation of ORS's Utility Rates Department. These amounts have been included in the calculation of ORS's depreciation expense adjustment as shown on ORS's Audit Exhibit DFS-3.

Adjustment 6 – Rent Expense – ORS proposes an adjustment of (\$30,810) to rent expense reflecting a decrease in the rental rate proposed by the Company and the removal of test year expenses that were not adequately supported. The owners of the Company, Janet and William Teichman, rent out a portion of their home and outdoor storage area to Moore Sewer. The Company has included \$15,330 of rent expense in the test year which was booked as twelve monthly payments of \$1,277.50. The Company computed this amount by multiplying the rental square footage of 254 square feet by approximately \$5.03 per square foot. ORS calculated an average price per square foot of \$1.22 based on six comparable office rental listings in the Spartanburg area. ORS multiplied \$1.22 per square foot by the Company's proposed rental square footage of 254 square feet to generate an allowable rent expense of approximately \$310 per month. This amount annualized totals \$3,720 of allowable test year rent expense, less the \$15,330 per book amount, yields an adjustment of (\$11,610).

The remaining (\$19,200) of ORS's rent expense adjustment was removed due to lack of support documentation. This amount was paid by Moore Sewer to one of the owners of the Company, William Teichman. Upon request for additional supporting documentation, the Company stated that there was not a contract or detailed invoices supporting this expense for the test year. ORS has removed the test year amount of \$19,200 since the Company was unable to sufficiently support the test year rent expenses.

1 Adjustment 7 – Miscellaneous – ORS proposes an adjustment of (\$113) to reflect a change
2 in the allocation of the utilities charged for the Company's rental space. Per the
3 recommendation of the Utility Rates Department, ORS calculated the utilities allocation
4 factor by dividing the Company's proposed rental square footage of 254 square feet by the
5 total square footage of the home and the heated/cooled storage shed, 2,024 square feet.
6 This produced an allocation factor of 12.55% which was applied to the total allocable test
7 year utility expenses of \$2,604, yielding allowable allocated utilities of \$327. ORS then
8 added \$137 of electric expenses paid by the Company for the light pole at the Company's
9 closed lagoon site. The allowable amount of test year utilities totaled \$464, less the per
10 book amount of \$577, yields an adjustment of (\$113).

11 Adjustment 8 – Bad Debt Expense – ORS proposes an adjustment to normalize test year
12 bad debt expense. The ORS Utility Rates Department proposes to calculate bad debt expense
13 by applying a bad debt percentage of 1.5% to total operating revenues. ORS's proposed
14 adjustment is (\$3,840).

15 Adjustment 9 – Proforma Contract Expense – ORS proposes a \$71,055 pro forma contract
16 expense adjustment to reflect the inclusion of contract expenses the Company will incur
17 going forward. The Company provided ORS a contract between Janet T, LLC and Moore
18 Sewer for billing services and field work services detailing the work to be performed by
19 Janet T, LLC going forward. ORS has included \$40,404 in billing expenses and \$9,600 in
20 field work expenses based on the new detailed contract provided by the Company. The
21 Company also provided a new detailed and fully executed contract between the
22 convenience store and Moore Sewer detailing a 5% collection fee to be charged for each
23 payment made at the store going forward. ORS has included \$1,851 in collection fee

1 expense, based on the new contract collection fee percentage and the actual amount of
2 payments made at the convenience store during the test year. The Company also provided
3 a new maintenance contract between William Teichman and Moore Sewer detailing the
4 work to be performed by Mr. Teichman going forward. ORS has included \$19,200 in
5 contract maintenance fees expense, based on the new contract provided by the Company.

6 Adjustment 10 – Rate Case Expenses – ORS and Moore Sewer propose a rate case expense
7 adjustment to reflect the five year amortization of rate case expenses. Moore Sewer
8 proposes an adjustment of \$4,000, which reflects the five year amortization of \$20,000 of
9 estimated rate case expenses. ORS proposes an adjustment of \$5,153, which reflects the
10 five year amortization of \$25,763 of allowable rate case expenses. ORS disallowed
11 duplicate expenses, expenses not related to Moore Sewer, and expenses not related to the
12 rate case incurred outside of the test year. ORS disallowed rate case expenses totaling
13 \$2,615.

14 Adjustment 11 – Major Repairs – Rehabilitation – The Company proposes to expense two
15 major repairs totaling \$6,450. These expenses were incurred during 2017 and were
16 capitalized by ORS per the recommendation of the Utility Rates Department. ORS has
17 included these repairs as pro forma plant in service on Audit Exhibit DFS-3 column 7, rows
18 25 and 26, for inclusion in the calculation of ORS's depreciation and amortization expense
19 adjustment #12.

20 Other Expenses and Deductions – ORS's other expenses and deductions adjustments total
21 \$8,229. This amount is comprised of the following adjustments:

22 Adjustment 12 – Depreciation & Amortization – ORS proposes to adjust depreciation and
23 amortization expense by \$7,656 to reflect new capital expenditures and other adjustments

1 to plant in service. The details of ORS's proposed depreciation and amortization
2 adjustment are shown in Audit Exhibit DFS-3. Audit Exhibit DFS-3, Column 9 details the
3 service lives assigned to each asset by the ORS Utility Rates Department. Audit Exhibit
4 DFS-3, Column 10 calculates ORS depreciation and amortization expense by dividing the
5 ORS plant in service figures in Column 8, by the service life in Column 9, noting any assets
6 which are fully depreciated. ORS calculated total depreciation and amortization expense
7 of \$13,963, less the Company's per book amount of \$6,307, yielding an adjustment of
8 \$7,656.

9 Adjustment 13 – Regulatory Expense - Other – ORS proposes to adjust gross receipts taxes
10 for the accounting and pro forma adjustments made to operating revenues. To compute this
11 adjustment, a PSC/ORS factor of 0.008241690 was applied to the ORS pro forma total
12 operating revenue to increase regulatory expense – other.

13 Adjustment 14 – State Income Taxes – ORS proposes to adjust state income taxes after
14 accounting and pro forma adjustments using the South Carolina corporate income tax rate
15 of 5%. Details of the computation of income taxes are shown in Audit Exhibit DFS-4.

16 Adjustment 15 – Federal Income Taxes – ORS proposes to adjust federal income taxes after
17 accounting and pro forma adjustments. ORS used a 21% tax rate for its calculation of
18 federal income taxes. This rate takes into account known and measurable changes resulting
19 from the Tax Cuts and Jobs Act that is currently in effect and will be in effect for the
20 Company's future federal income tax filings. Details of the computation of income taxes
21 are shown in Audit Exhibit DFS-4.

22 Adjustment 16 – Customer Growth – ORS proposes to adjust customer growth for total
23 operating income after the accounting and pro forma adjustments. The ORS Utility Rates

1 Department computed a growth factor of 1.51520%. This percentage was applied to the
2 total operating income after accounting and pro forma adjustments for a total customer
3 growth adjustment of \$3. The customer growth factors are found in ORS Utility Rates
4 Department witness, Anthony Sandonato's Exhibit AMS-4.

5 Adjustment 17 – Interest Expense – Moore Sewer proposed to adjust interest expense by
6 \$18,115 reflecting a 3% interest rate on two notes payable totaling \$603,819. The notes
7 payable consist of a shareholder note payable for \$41,510 and a \$562,309 note payable to
8 Operation Drains, Inc. Operation Drains, Inc., described by Moore Sewer as an “inactive
9 corporation,” is also owned by William Teichman.

10 In response to ORS's request for additional supporting documentation for the Operation
11 Drains, Inc. note payable, the Company stated that the purpose of the note payable was to
12 reimburse unpaid costs to maintain and repair the sewer system and costs to abide by the
13 EPA regulation to close the lagoons. Operations Drains, Inc. provided numerous services to
14 Moore Sewer and was never paid by Moore Sewer for the work performed. Some of the
15 services performed by Operation Drains, Inc. included the installation of elder valves,
16 required maintenance and repairs, and services related to the closure of the lagoon. The
17 Company provided ORS with a summary statement dated July 31, 2006 from Operations
18 Drains, Inc. to Moore Sewer detailing charges for work performed from the years of 2004 to
19 2006. The statement also detailed finance charges billed to Moore Sewer due to lack of
20 payment. The statement showed a total amount due of \$391,064, of which \$46,132 was billed
21 as finance charges. The Company stated that there was additional work performed by
22 Operation Drains, Inc., but there were no invoices prepared for the work at that time.

1 The note payable between Operation Drains, Inc. and Moore Sewer was essentially
2 established as a repayment plan in February 2010 because the Company did not pay
3 Operation Drains, Inc. for the extensive work performed. As a result of the Company not
4 making payments, additional late payment finance charges were assessed creating a higher
5 balance owed to Operation Drains, Inc. In addition to the finance charges assessed by
6 Operation Drains, Inc. and included in the balance owed, the Company is proposing to
7 recover 3.0% interest on the balance of the note payable.

8 The Company stated that it has not made any payments on either of the notes payable. It is
9 ORS's position that the Company should not receive recovery of an expense from rate payers
10 that the Company did not pay for. In addition, the Company should not recover interest
11 expense from rate payers for loans the Company is not repaying.

12 ORS Audit Exhibit DFS-6 details ORS's calculation of interest expense using interest
13 synchronization. ORS's calculation synchronizes the Company's interest expense with its
14 rate base. ORS used a hypothetical 50% debt and 50% equity capital structure, a rate base of
15 \$177,461, and a 0% weighted average cost of debt since the Company has not made any
16 payments on the notes payable.

17 Adjustment 18 – Gross Utility Plant in Service – ORS proposes to adjust gross utility plant
18 in service by (\$119,252). Details of ORS's proposed gross plant in service adjustment are
19 shown in Audit Exhibit DFS-3.

20 Columns 1 and 2 of Audit Exhibit DFS-3 detail the asset descriptions and in service dates
21 for each asset, respectively.

22 Column 3 of DFS-3 details the original cost of the assets. The Company's balance sheet,
23 Exhibit B of the application, shows \$476,413 in plant in service. The Company provided

1 ORS a breakdown of the individual items that comprise the application plant in service
2 amount. The breakdown provided by the Company totaled \$476,414 and included
3 \$215,648 of notes payable. The Company did not include the \$215,648 of notes payable
4 in its calculation of depreciation expense. ORS did not include notes payable in plant in
5 service used to calculate depreciation expense as notes payable are not depreciable plant
6 assets. ORS's per book depreciable plant in service, as shown by the total of Column 3 on
7 Audit Exhibit DFS-3, is \$260,766. This amount reflects the Company's plant in service
8 amount of \$476,414, less the \$215,648 of notes payable.

9 Column 4 of Audit Exhibit DFS-3 details the net reduction of \$14,765 to plant in service
10 in Docket No. 2003-41-S. Assets associated with the Company's lagoon closure totaling
11 \$15,586 were removed in Docket No. 2003-41-S and the PSC ordered an extraordinary
12 retirement of the undepreciated balance of these assets to be amortized over 5 years. Two
13 assets, totaling \$821, were added to plant in service by the PSC in Docket No. 2003-41-S
14 for expenses that should have been capitalized.

15 Column 5 of Audit Exhibit DFS-3 accounts for the removal of a \$744 generator retired by
16 the Company in 2002, removal of \$204 related to a line cleanout that the ORS Utility Rates
17 Department determined should have been expensed and not capitalized, and the removal
18 of the two assets capitalized by the PSC in the last rate case totaling \$821 that are no longer
19 included in the Company's plant in service. Column 5 also accounts for the inclusion of
20 \$90,237 of assets placed in service since the last rate case but prior to the start of the current
21 test year that the Company did not include in its plant in service on the application.

Column 6 of Audit Exhibit DFS-3 details test year expenses capitalized by the ORS Utility Rates Department totaling \$10,597. This amount is the total of the capitalized expenses in ORS adjustments #2 and #5.

Column 7 details the addition of \$12,095 of pro forma plant additions placed in service by the March 30, 2018 cutoff date.

Column 8 details the ORS calculated plant in service amount of \$357,161 as of March 30, 2018 which is computed by totaling the amounts in Columns 3 through 7. ORS's calculated gross plant in service of \$357,161 as of March 30, 2018, less the Company's per book amount of \$476,413, yields an adjustment of (\$119,252).

Adjustment 19 – Accumulated Depreciation and Amortization – ORS proposes a reduction to accumulated depreciation and amortization of \$198,943 as of May 31, 2018. Audit Exhibit DFS-3, Column 11 details the accumulated depreciation or amortization assigned to each asset. The accumulated depreciation or amortization is computed by multiplying the number of years the asset has been in service by the depreciation expense assigned to the asset. For assets that are fully depreciated, the accumulated depreciation is equal to the original cost of the asset. ORS's calculated total accumulated depreciation and amortization of \$196,641, less the Company's per book amount of \$395,584, yields a reduction to accumulated depreciation and amortization of \$198,943.

Adjustment 20 – Cash Working Capital – ORS proposes to adjust for cash working capital after accounting and pro forma adjustments. ORS used a 45 day allowance or 12.50% of operating expenses for the cash working capital adjustment. ORS proposes to increase cash working capital by \$16,243. Details of this adjustment are included in Audit Exhibit DFS-5.

1 Adjustment 21 – Tax Collection Shortfall – ORS proposes an adjustment of \$1,036 to the
2 Company's rate base for the tax collection shortfall due to the Tax Cuts and Jobs Act. This
3 adjustment reflects the balance of \$1,295 from ORS Adjustment 1B, less one year of
4 amortization of \$259. ORS estimated the Company's tax collection shortfall from January
5 1, 2018 through May 31, 2018 due to current rates having been calculated using a 15%
6 federal tax rate. ORS proposes to amortize this asset over five years and the annual
7 amortization of (\$259) is addressed in ORS Adjustment 1B. This adjustment is discussed
8 in further detail in the testimony and exhibits of ORS Utility Rates Department witness,
9 Anthony Sandonato. See Exhibit AMS-7.

10 Adjustment 22 – Wastewater Revenues – The ORS Utility Rates Department proposes to
11 adjust wastewater sales revenues for the Company's proposed increase. Details of the
12 proposed increase wastewater revenues are reflected in the direct testimony and exhibits of
13 ORS witness Anthony Sandonato. See Exhibit AMS-2.

14 Adjustment 23 – Bad Debt Expense – ORS proposes an adjustment to bad debt expense to
15 reflect the Company's proposed increase. The ORS Utility Rates Department proposes to
16 calculate bad debt expense by applying a bad debt percentage of 1.5% to operating revenues.

17 Adjustment 24 – Regulatory Expense – Other – ORS proposes to adjust gross receipts taxes
18 for the proposed increase. The current PSC/ORS factor of 0.008241690 was used to compute
19 this adjustment.

20 Adjustment 25 – State Income Taxes – ORS proposes to adjust state income taxes for the
21 proposed increase. ORS and Moore Sewer used a 5% rate for calculation of state income
22 taxes. Details of ORS's computation of state income taxes are shown in Audit Exhibit DFS-
23 4.

Adjustment 26 – Federal Income Taxes – ORS proposes to adjust federal income taxes for the proposed increase. ORS used a 21% rate for calculation of federal income taxes. This rate takes into account known and measurable changes resulting from the Tax Cuts and Jobs Act that is currently in effect and will be in effect for the Company's future federal income tax filings. Details of ORS's computation of federal income taxes are shown in Audit Exhibit DFS-4.

Adjustment 27 – Customer Growth – ORS proposes to adjust customer growth for total operating income after the proposed increase. The ORS Utility Rates Department computed a growth factor of 1.51520%. This factor was applied to the total operating income after the proposed increase.

Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.

A. Audit Exhibit DFS-3 shows the computation of depreciation and amortization expense associated with plant in service. Audit Exhibit DFS-4 shows the computation of income taxes. Audit Exhibit DFS-5 shows the computation of cash working capital. Audit Exhibit DFS-6 shows the computation of interest expense and Audit Exhibit DFS-7 details the operating experience, operating margin and rate base at ORS proposed rates for combined operations. The direct testimony and Exhibit AMS-9 of ORS Utility Rates Department witness, Anthony Sandonato, further addresses and details ORS's proposed rates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Moore Sewer, Inc.
Docket No. 2016-384-S
Operating Experience, Operating Margin and Rate Base
For the Test Year Ended December 31, 2016
Wastewater Operations

	(1)	(2)	(3)	(4)	(5)
	Per	Accounting &	After	Proposed	After
	Application	Pro Forma	Accounting &	Increase	Proposed
	\$	Adjustments	Pro Forma	\$	Increase
	\$	\$	Adjustments	\$	\$
<u>Operating Revenues:</u>					
Wastewater Revenue	115,258	30,128	(1) 145,386	136,676	(22) 282,062
<u>Total Operating Revenues</u>	115,258	30,128	145,386	136,676	282,062
<u>Operating Expenses:</u>					
Purchased Wastewater Treatment	22,545	-	22,545	-	22,545
Purchased Power	361	-	361	-	361
Materials & Supplies	4,627	(2,163)	(2) 2,464	-	2,464
Contractual Services - Billing	40,404	(40,404)	(3) -	-	-
Contractual Services - Professional	5,987	(4,904)	(4) 1,083	-	1,083
Contractual Services - Other	36,604	(20,161)	(5) 16,443	-	16,443
Rent Expense	34,530	(30,810)	(6) 3,720	-	3,720
Insurance Expense	2,149	-	2,149	-	2,149
Miscellaneous Expense	2,905	(113)	(7) 2,792	-	2,792
Bad Debt Expense	6,021	(3,840)	(8) 2,181	2,050	(23) 4,231
Proforma Contract Expenses	-	71,055	(9) 71,055	-	71,055
Rate Case Expenses	-	5,153	(10) 5,153	-	5,153
Major Repairs - Rehabilitation	-	-	(11) -	-	-
<u>Total Operating Expenses</u>	156,133	(26,187)	129,946	2,050	131,996
<u>Other Expenses and Deductions:</u>					
Depreciation & Amortization	6,307	7,656	(12) 13,963	-	13,963
Regulatory Expense - Other	695	503	(13) 1,198	1,126	(24) 2,324
State Income Taxes	-	14	(14) 14	6,675	(25) 6,689
Federal Income Taxes	-	56	(15) 56	26,633	(26) 26,689
<u>Total Other Expenses and Deductions:</u>	7,002	8,229	15,231	34,434	49,665
<u>Total Expenses</u>	163,135	(17,958)	145,177	36,484	181,661
<u>Total Operating Income</u>	(47,877)	48,086	209	100,192	100,401
Add: Customer Growth	-	3	(16) 3	1,518	(27) 1,521
Less: Interest Expense	-	-	(17) -	-	-
<u>Net Income (Loss) for Margin</u>	(47,877)	48,089	212	101,710	101,922
<u>Operating Margin</u>	-41.54%		0.15%		36.13%
<u>Original Cost Rate Base</u>					
Gross Utility Plant in Service	476,413	(119,252)	(18) 357,161	-	357,161
Accumulated Depreciation	(395,584)	198,943	(19) (196,641)	-	(196,641)
Net Plant in Service	80,829	79,691	160,520	-	160,520
Cash Working Capital	-	16,243	(20) 16,243	-	16,243
Tax Collection Shortfall	-	1,036	(21) 1,036	-	1,036
Accumulated Deferred Income Taxes	-	-	-	-	-
<u>Total Rate Base</u>	80,829	96,970	177,799	-	177,799

Moore Sewer, Inc. Docket No. 2016-384-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2016

ORS	Sewer Operations		
Adj. #	Description	ORS	MSI
<u>Accounting and Pro forma Adjustments</u>			
(1) <u>Wastewater Revenues</u>			
(1A)	To adjust revenues to reflect the present rates as calculated by the ORS Utility Rates Department on Exhibit AMS-2.	\$ 30,387	\$ 0
(1B)	To adjust revenue for the amortization of the shortfall of taxes collected by the Company due to the Tax Cuts and Jobs Act. This adjustment was provided by the ORS Utility Rates Department. See Exhibit AMS-7.	(259)	0
(1)		\$ 30,128	\$ 0
<u>Operating Expenses</u>			
(2)	To adjust materials and supplies to reflect the removal of nonallowable expenses & expenses capitalized per recommendation of the ORS Utility Rates Department.	\$ (2,163)	\$ 0
(3)	To adjust contractual services - billing to reflect the removal of nonallowable test year expenses.	(40,404)	0
(4)	To adjust contractual services - professional to reflect the removal of nonallowable expenses and rate case related expenses booked in the test year. The rate case expenses will be amortized over 5 years in ORS adjustment #10.	(4,904)	0
(5)	To adjust contractual services - other to reflect the removal of nonallowable test year expenses & expenses capitalized per recommendation of the ORS Utility Rates Department.	(20,161)	0
(6)	To adjust rent expense to reflect the removal of nonallowable test year expenses and an adjusted price per square foot based on comparable office rental listings.	(30,810)	0
(7)	To adjust miscellaneous expense to reflect an adjustment to the allocation percentage used to allocate utilities for the Company's office space rental per recommendation of the ORS's Utility Rates Department.	(113)	0
(8)	To adjust bad debt expense using a 1.5% bad debt percentage. The percentage was provided by the ORS Utility Rates Department.	(3,840)	0
(9)	To reflect the inclusion of contract expenses the Company will incur going forward.	71,055	0
(10)	To reflect the 5 year amortization of rate case expenses.	5,153	4,000

Moore Sewer, Inc. Docket No. 2016-384-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2016

ORS Adj. #	Description	Sewer Operations	
		ORS	MSI
(11)	To reflect the inclusion of major rehabilitation repair expenses incurred in 2017.	0	6,450
		\$ (26,187)	\$ 10,450
	<u>Other Expenses and Deductions</u>		
(12)	To adjust depreciation and amortization expense to reflect new capital expenditures, adjustments to plant in service, and the amortization of capacity fees.	\$ 7,656	\$ 0
(13)	To adjust regulatory expense - other to reflect the utility regulatory assessment fees after the accounting and pro forma adjustments using a factor of 0.008241690.	503	0
(14)	To adjust state income taxes on proforma income at 5%.	14	0
(15)	To adjust federal income taxes on proforma income at 21%.	56	0
		\$ 8,229	\$ 0
	<u>Customer Growth</u>		
(16)	To adjust for customer growth based on total operating income after accounting and proforma adjustments. The customer growth factor is 1.51520%.	\$ 3	\$ 0
	<u>Interest Expense</u>		
(17)	To synchronize interest expense with the portion of rate base financed by debt. See Audit Exhibit DFS-6.	\$ 0	\$ 18,115
	<u>Gross Utility Plant in Service</u>		
(18)	To adjust gross plant in service as of 03/30/2018. See Audit Exhibit DFS-3.	\$ (119,252)	\$ 0
	<u>Accumulated Depreciation</u>		
(19)	To adjust accumulated depreciation as of 05/31/2018. See Audit Exhibit DFS-3.	\$ 198,943	\$ 0
	<u>Cash Working Capital</u>		
(20)	To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit DFS-5.	\$ 16,243	\$ 0

Moore Sewer, Inc. Docket No. 2016-384-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2016

ORS Adj. #	Description	Sewer Operations	
		ORS	MSI
<u>Shortfall Tax Collection Asset</u>			
(21)	To adjust rate base for the creation of a shortfall tax collection asset resulting from higher federal tax rates.	\$ <u>1,036</u>	\$ <u>0</u>
<u>Proposed Increase</u>			
<u>Wastewater Sales Revenues</u>			
(22)	To adjust revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department on Audit Exhibit AMS-2.	\$ <u>136,676</u>	\$ <u>133,142</u>
<u>Operating Expenses</u>			
(23)	To adjust bad debt expense using a 1.5% bad debt percentage. The percentage was provided by the ORS Utility Rates Department.	\$ <u>2,050</u>	\$ <u>0</u>
<u>Other Expenses and Deductions</u>			
(24)	To adjust regulatory expense - other to reflect the utility regulatory assessment fees after the proposed increase adjustments using a factor of 0.008241690.	\$ 1,126	\$ 0
(25)	To adjust state income taxes on the proposed increase income at 5%.	6,675	0
(26)	To adjust federal income taxes on the proposed increase income at 21%.	<u>26,633</u>	<u>0</u>
		\$ <u>34,434</u>	\$ <u>0</u>
<u>Customer Growth</u>			
(27)	To adjust for customer growth based on total operating income after the proposed increase. The customer growth factor is 1.51520%.	\$ <u>1,518</u>	\$ <u>0</u>

Moore Sewer, Inc.
Docket No. 2016-384-S
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2016

1	2	3	4	5	6	7	8	9	10	11
	In Service Date	Original Cost of Depreciable Per Book Plant In Service Assets	Added (Removed) in Last Rate Case	ORS Additions to (Subtractions From) Plant In Service	ORS Capitalized Test Year Expenses	ORS Proforma Plant at 3/30/18	ORS Plant In Service at 3/30/18	Service Life	Depreciation/ Amortization Expense	Accumulated Depreciation/ Amortization at 05/31/2018
1	354-00 Structures/Improvements									
2	SEWER SYSTEM	3/1/1982	12,450	-	-	-	12,450	40	311	11,249
3	SEWER UPGRADE	3/1/1982	57,948	-	-	-	57,948	40	1,449	52,410
4	SEWER SYSTEM	1/1/1987	2,066	(2,066) 2	-	-	-	40	-	-
5	SEWER SYSTEM	1/1/1988	6,033	(6,033) 2	-	-	-	40	-	-
6	PIPING TO AERATOR PUMP	3/01/2002	311	(311) 2	-	-	-	15	FD	-
7										
8	354-10 Impact Fees									
9	CAPACITY FEE-SSSD CNTY	6/01/2001	17,933	-	-	-	17,933	40	448	7,580
10	CAPACITY FEE-CITY SPARTANBURG	6/01/2001	28,154	-	-	-	28,154	40	704	11,912
11	SSSD-FEE TO FLOW2TREATMNT PLNT	6/27/2003	7,901	-	-	-	7,901	40	198	2,954
12										
13	355 Power Gen. Equipment									
14	GENERATOR	4/01/2002	744	(744) 4	-	-	-	17	-	-
15										
16	361-00 Collection Sewers									
17	MANHOLES	11/06/2001	4,129	-	-	-	4,129	27	153	2,525
18	SEWER LINE EXTENSION	1/01/2002	62,275	-	-	-	62,275	40	1,557	25,426
19	MANHOLES	1/01/2002	1,297	-	-	-	1,297	27	48	784
20	MANHOLES	1/01/2002	2,177	-	-	-	2,177	27	81	1,323
21	CLEANOUTS	3/01/2003	204	(204) 5	-	-	-	N/A	-	-
22	MANHOLES	5/01/2003	210	-	-	-	210	27	8	120
23	SEWER LINE EXCAVATION - ASPHALT	11/5/2009	-	-	-	-	2,095	40	52	442
24	MAIN LINE REPAIR 2009	12/17/2009	-	-	-	-	716	15	48	404
25	MAIN LINE REPAIR 2017	7/31/2017	-	-	-	-	3,150	40	79	79
26	MAIN LINE REPAIR 2017	3/4/2017	-	-	-	-	3,300	40	83	97
27										
28	363-00 Services to Customers									
29	SHUT OFF VALVES 2002	4/01/2002	615	-	-	-	615	15	FD	615
30	SHUT OFF VALVES 2008	12/31/2008	-	-	-	-	36,176	15	2,412	22,721
31	SHUT OFF VALVES 2009	12/31/2009	9,245	-	-	-	27,524	15	1,835	15,451
32	SHUT OFF VALVES 2010	12/31/2010	12,557	300 6	-	-	12,857	15	857	6,359
33	SHUT OFF VALVES 2011	12/31/2011	-	-	-	-	4,053	15	270	1,733
34	SHUT OFF VALVES 2012	12/31/2012	-	-	-	-	10,444	15	696	3,772
35	SHUT OFF VALVES 2013	12/31/2013	-	-	-	-	8,841	15	589	2,603
36	SHUT OFF VALVES 2014	12/31/2014	-	-	-	-	3,255	15	217	742
37	SHUT OFF VALVES 2015	12/31/2015	-	-	-	-	6,078	15	405	980
38	SHUT OFF VALVES 2016	12/31/2016	-	-	-	-	10,597	15	706	1,003
39	SHUT OFF VALVES 2017	12/31/2017	-	-	-	-	5,645	15	376	376
40										

Moore Sewer, Inc.
Docket No. 2016-384-S
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2016

1	2	3	4	5	6	7	8	9	10	11
	In Service Date	Original Cost of Depreciable Per Book Plant In Service Assets	Added (Removed) in Last Rate Case	ORS Additions to (Subtractions From) Plant In Service	ORS Capitalized Test Year Expenses	ORS Proforma Plant at 3/30/18	ORS Plant In Service at 3/30/18	Service Life	Depreciation/ Amortization Expense	Accumulated Depreciation/ Amortization at 05/31/2018
41	364-00 Flow Measuring Dev									
42	FLOW METER	2,733	(2,733)	2	-	-	-	40	-	-
43	FLOW METER	4,858	-	-	-	-	4,858	40	121	1,926
44	CALIBRATION OF FLOW METER	500	-	-	-	-	500	5	FD	500
45	CALIBRATION OF FLOW METER	300	-	-	-	-	300	5	FD	300
46	CALIBRATION OF FLOW METER	385	-	-	-	-	385	5	FD	385
47	CALIBRATION OF FLOW METER	385	-	-	-	-	385	5	FD	385
48										
49	380-00 Treatment & Disposal Equipment									
50	EQUIPMENT (ME)	1,850	(1,850)	2	-	-	-	25	-	-
51	EQUIPMENT (ME)	2,093	(2,093)	2	-	-	-	25	-	-
52	EQUIPMENT (ME)	500	(500)	2	-	-	-	25	-	-
53	EQUIPMENT	901	-	-	-	-	901	15	FD	901
54	EQUIPMENT	119	-	-	-	-	119	15	FD	119
55										
56	389-00 Other Plant & Misc.									
57	FENCING	3,190	-	-	-	-	3,190	10	FD	3,190
58	FENCING	3,156	-	-	-	-	3,156	10	FD	3,156
59	30 X 12 FENCE + NEW GATE	1,345	-	-	-	-	1,345	10	135	1,226
60										
61	390 - Office Furniture & Equipment									
62	COMPUTER SOFTWARE	-	700	3	(700)	-	-	6	FD	-
63	COMPUTER	1,391	-	-	-	-	1,391	6	FD	1,391
64	PRINTER	466	-	-	-	-	466	6	FD	466
65	OFFICE EQUIPMENT	1,882	-	-	-	-	1,882	15	125	573
66										
67	393-00 Tools/Shop/Garage									
68	TOOLS	1,621	-	-	-	-	1,621	7	FD	1,621
69	TOOLS	169	-	-	-	-	169	7	FD	169
70	TOOLS	554	-	-	-	-	554	7	FD	554
71	TOOLS	222	-	-	-	-	222	7	FD	222
72	TOOLS	-	121	3	(121)	-	-	7	FD	-
73	TOOLS TO RPR POND AERATOR	300	-	-	-	-	300	7	FD	300
74	TOOLS TO RPR POND AERATOR	200	-	-	-	-	200	7	FD	200
75	TOOLS TO RPR POND AERATOR	100	-	-	-	-	100	7	FD	100
76	TOOLS TO RPR POND AERATOR	92	-	-	-	-	92	7	FD	92
77	TOOLS TO RPR POND AERATOR	340	-	-	-	-	340	7	FD	340
78	TOOLS	13	-	-	-	-	13	7	FD	13
79	TOOLS	17	-	-	-	-	17	7	FD	17
80	TOOLS	31	-	-	-	-	31	7	FD	31

Moore Sewer, Inc.
Docket No. 2016-384-S
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2016

1	2	3	4	5	6	7	8	9	10	11
	In Service Date	Original Cost of Depreciable Per Book Plant In Service Assets	Added (Removed) in Last Rate Case	ORS Additions to (Subtractions From) Plant In Service	Capitalized Test Year Expenses	ORS Proforma Plant at 3/30/18	ORS Plant In Service at 3/30/18	Service Life	Depreciation/ Amortization Expense	Accumulated Depreciation/ Amortization at 05/31/2018
81	10/1/2003	1,895	-	-	-	-	1,895	7	FD	1,895
82	2/26/2004	47	-	-	-	-	47	7	FD	47
83	3/26/2004	14	-	-	-	-	14	7	FD	14
84	4/30/2004	92	-	-	-	-	92	7	FD	92
85	7/29/2004	783	-	-	-	-	783	7	FD	783
86	2/21/2006	373	-	-	-	-	373	7	FD	373
87	7/05/2006	1,200	-	-	-	-	1,200	7	FD	1,200
88	8/28/2006	400	-	-	-	-	400	7	FD	400
		<u>\$ 260,766</u>	<u>1 \$ (14,765)</u>	<u>\$ 88,468</u>	<u>\$ 10,597</u>	<u>\$ 12,095</u>	<u>\$ 357,161</u>		<u>\$ 13,963</u>	<u>\$ 196,641</u>
						Per Book	\$ 476,413		\$ 6,307	\$ 395,584
						ORS Adjustment	\$ (119,252)		\$ 7,656	\$ (198,943)

- 1: The Company included \$215,648 of notes payable in its total application per books plant in service amount of \$476,414 (\$1 variance due to rounding). The Company did not include these amounts in the calculation of depreciation expense as they are not depreciable assets. Therefore, ORS has used the total depreciable per books plant in service amount of \$260,766 as the starting point for the depreciation schedule. (\$476,414 - \$215,648 = \$260,766)
- 2: These assets were removed in Docket No. 2003-41-S and the undepreciated balance of each asset was included as part of an \$11,539 extraordinary retirement related to the lagoon closure.
- 3: These assets were removed from expenses and capitalized in Docket No. 2003-41-S.
- 4: Per the Company, the generator was retired in 2002.
- 5: Per the ORS Utility Rates Department, this amount should have been expensed and not capitalized by the Company.
- 6: These assets were placed in service before the beginning of the test year, but were not included in the Company's application plant in service amount.
- 7: These assets were capitalized in the last rate case (See 3) but were not included in the Company's application per book plant in service.

FD - Fully Depreciated

Audit Exhibit DFS-4

Moore Sewer, Inc.
Docket No. 2016-384-S
Computation of Income Taxes
For the Test Year Ended December 31, 2016

After Accounting & Pro Forma Adjustments

	\$ Wastewater Operations
Operating Revenues	145,386
Operating Expenses	<u>145,107</u>
Net Operating Income Before Taxes	279
Less: Annualized Interest Expense	<u>-</u>
Taxable Income - State	279
State Income Tax %	<u>5%</u>
State Income Taxes	14
Less: State Income Taxes Per Book	<u>-</u>
ORS State Income Tax Adjustment #14	<u>14</u>
Taxable Income - Federal	265
Federal Income Taxes %	<u>21%</u>
Federal Income Taxes	56
Less: Federal Income Taxes Per Book	<u>-</u>
ORS Federal Income Tax Adjustment #15	<u>56</u>

After Proposed Increase

	\$ Wastewater Operations
Operating Revenues	282,062
Less: Operating Expenses	<u>148,283</u>
Net Operating Income Before Taxes	133,779
Less: Annualized Interest Expense	<u>-</u>
Taxable Income - State	133,779
State Income Tax %	<u>5%</u>
State Income Taxes	6,689
Less: State Income Taxes As Adjusted	<u>14</u>
ORS State Income Tax Adjustment #25	<u>6,675</u>
Taxable Income - Federal	127,090
Federal Income Taxes %	<u>21%</u>
Federal Income Taxes	26,689
Less: State Income Taxes As Adjusted	<u>56</u>
ORS Federal Income Tax Adjustment #26	<u>26,633</u>

Audit Exhibit DFS-5

Moore Sewer, Inc.
Docket No. 2016-384-S
Computation of Cash Working Capital
For the Test Year Ended December 31, 2016

After Accounting & Pro Forma Adjustments	
	\$
	Wastewater Operations
Operating Expenses	129,946
Allowable Rate	12.50%
ORS Cash Working Capital Adjustment #20	16,243

Audit Exhibit DFS-6

Moore Sewer, Inc. Docket No. 2016-384-S
Computation of Interest Expense
For the Test Year Ended December 31, 2016

Sewer Operations

Description	Capital Structure	Ratio	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 56,500	50.00%	\$ 40,415	0.00%	0.00%	\$ -	\$ 88,900	0.00%	0.00%	\$ -	\$ 88,900	0.00%	0.00%	\$ -
Members' Equity	56,500	50.00%	40,415	-118.46%	-59.23%	(47,877)	88,900	0.24%	0.12%	212	88,900	114.65%	57.32%	101,922
Totals	\$ 113,000	100.00%	\$ 80,829		-59.23%	\$ (47,877)	\$ 177,799		0.12%	\$ 212	\$ 177,799		57.32%	\$ 101,922

Moore Sewer, Inc.
Docket No. 2016-384-S
Operating Experience, Operating Margin and Rate Base at ORS Proposed Rates
For the Test Year Ended December 31, 2016
Wastewater Operations

	(1)	(2)	(3)	(4)	(5)
	Per	Accounting	After	Proposed	After
	Application	& Pro Forma	Accounting & Pro Forma	Increase	Proposed
	\$	Adjustments	Adjustments	\$	Increase
		\$	\$		\$
<u>Operating Revenues:</u>					
Wastewater Revenue	115,258	30,128 (1)	145,386	36,308 (22)	181,694
<u>Total Operating Revenues</u>	115,258	30,128	145,386	36,308	181,694
<u>Operating Expenses:</u>					
Purchased Wastewater Treatment	22,545	-	22,545	-	22,545
Purchased Power	361	-	361	-	361
Materials & Supplies	4,627	(2,163) (2)	2,464	-	2,464
Contractual Services - Billing	40,404	(40,404) (3)	-	-	-
Contractual Services - Professional	5,987	(4,904) (4)	1,083	-	1,083
Contractual Services - Other	36,604	(20,161) (5)	16,443	-	16,443
Rent Expense	34,530	(30,810) (6)	3,720	-	3,720
Insurance Expense	2,149	-	2,149	-	2,149
Miscellaneous Expense	2,905	(113) (7)	2,792	-	2,792
Bad Debt Expense	6,021	(3,840) (8)	2,181	545 (23)	2,726
Proforma Contract Expenses	-	71,055 (9)	71,055	-	71,055
Rate Case Expenses	-	5,153 (10)	5,153	-	5,153
Major Repairs - Rehabilitation	-	- (11)	-	-	-
<u>Total Operating Expenses</u>	156,133	(26,187)	129,946	545	130,491
<u>Other Expenses and Deductions:</u>					
Depreciation & Amortization	6,307	7,656 (12)	13,963	-	13,963
Regulatory Expense - Other	695	503 (13)	1,198	299 (24)	1,497
State Income Taxes	-	14 (14)	14	1,773 (25)	1,787
Federal Income Taxes	-	56 (15)	56	7,075 (26)	7,131
<u>Total Other Expenses and Deductions:</u>	7,002	8,229	15,231	9,147	24,378
<u>Total Expenses</u>	163,135	(17,958)	145,177	9,692	154,869
<u>Total Operating Income</u>	(47,877)	48,086	209	26,616	26,825
Add: Customer Growth	-	3 (16)	3	403 (27)	406
Less: Interest Expense	-	- (17)	-	-	-
<u>Net Income (Loss) for Margin</u>	(47,877)	48,089	212	27,019	27,231
<u>Operating Margin</u>	-41.54%		0.15%		14.99%
<u>Original Cost Rate Base</u>					
Gross Utility Plant in Service	476,413	(119,252) (18)	357,161	-	357,161
Accumulated Depreciation	(395,584)	198,943 (19)	(196,641)	-	(196,641)
Net Plant in Service	80,829	79,691	160,520	-	160,520
Cash Working Capital	-	16,243 (20)	16,243	-	16,243
Tax Collection Shortfall	-	1,036 (21)	1,036	-	1,036
Accumulated Deferred Income Taxes	-	-	-	-	-
<u>Total Rate Base</u>	80,829	96,970	177,799	-	177,799